



## US Market Wrap

### 16th October 2023: Stocks and yields rise, with Dollar and Gold lower, as traders unwind weekend geopolitical hedges

- **SNAPSHOT:** Equities up, Treasuries down, Crude down, Dollar down.
- **REAR VIEW:** NY Fed Manufacturing survey not as bad as feared; Iran warns on possible war expansion; Biden agrees to ease sanctions on Venezuela oil; PFE cuts guidance, hitting vaccine names; AAPL iPhone sales fall Y/Y; Mixed SCHW earnings.
- **COMING UP: Data:** UK Jobs, German ZEW, US Retail Sales, Industrial Production, Capacity Utilisation & Business Inventories **Speakers:** Fed's Williams, Bowman, Barkin, Kashkari; ECB's de Guindos **Event:** Fed Discount Rate Minutes **Supply:** UK & Germany **Earnings:** Ericsson; JNJ, Prologis, Goldman Sachs, Bank of America, Lockheed.
- **WEEK AHEAD:** Highlights include US retail sales, China activity data, PBoC, inflation from NZ, Japan, UK and Canada. To download the report, please click [here](#).
- **CENTRAL BANK WEEKLY:** Previewing PBoC, RBA Minutes and BoK; Reviewing FOMC Minutes and ECB Minutes. To download the report, please click [here](#).
- **WEEKLY US EARNINGS ESTIMATES:** [TUES] JNJ, BAC, GS, LMT, PLD; [WED] ASML, ELV, PG, MS, ABT, NFLX, TSLA; [THURS] TSM, BX, T, PM, UNP; [FRI] AXP. To download the report, please click [here](#).

## MARKET WRAP

Stocks saw a broad-based rally on Monday with risk appetite recovering as weekend geopolitical hedges were unwound. The Russell 2k small-cap index outperformed the SPX and NDX, while there was broad participation among sectors in the rally. Nothing too fundamental has changed since Friday, with the Israeli forces on the Gaza border yet to enter, but at least for the time being, there has been no material widening of the conflict's scope to include other nations, although Iran's Foreign Minister did warn Monday that the possible expansion of the war on other fronts is approaching the inevitable stage, "[the] time for political solutions is running out". At the same time, oil prices were pressured by source reports of the US being on the cusp of easing sanctions on the Venezuelan oil industry. Treasuries saw chunky bear-steepening with the haven demand from Friday unwinding, with yields back to the highs seen after the awful 30yr auction last Thursday. The Dollar was largely softer amid the unwinding haven demand, despite the climb in yields. The NY Fed's Empire manufacturing survey was the only data point Monday, which saw a slightly smaller fall than expected, but the focus is now on Tuesday's retail sales. Fed Speak was relatively light, with Harker (2023 voter, dovish) reiterating his points from last week, although Williams (voter) at the Economic Club of New York on Tuesday could be crucial in laying the groundwork for Powell on Thursday; there is a deluge of Fed Speak throughout the week.

## GLOBAL

**US NY FED MANUFACTURING:** The NY Fed Manufacturing survey fell to -4.6 from +1.9 but was better than the expected -7.0. New orders and shipments dropped to -4.2 (prev. +5.1) and +1.4 (prev. +12.4), respectively, while on the inflationary footing prices paid marginally eased to +25.5 (prev. +25.8), with prices received printing a three month-low of +11.7 (prev. +19.6). In addition, employment rose back into positive territory at +3.1 (prev. -2.7), while looking ahead 6-month conditions marginally dipped to +23.1 (prev. +26.3). Overall, activity was slightly lower, employment ticked up, and firms remain fairly optimistic. Moreover, both delivery times and order backlogs fell sharply, with the latter dropping to the lowest level since May 2020, at the peak of the first COVID wave. As such, Pantheon Macroeconomics quips, "these measures tend to lead margins, so the signal here is of intensifying downward pressure, provided this result is replicated in the other regional surveys." Note, Empire State is the first of the October reports, and the others will be due over the coming weeks.

**ISRAEL:** There were initial reports that the US, Israel and Egypt agreed to a ceasefire in southern Gaza to commence at 07:00 BST, coinciding with the re-opening of the Rafah border crossing, via Reuters citing Egyptian security sources. However, Hamas stated it had no information about the humanitarian truce while other reports noted that live images of the Rafah crossing (Gaza to Egypt) remained closed. Israeli PM Netanyahu also suggested there was no truce or aid in Gaza. With fears of Iranian involvement, Israel claims that Iran instructed Lebanon's Hezbollah to carry out the attacks on Sunday on the Lebanon-Israel border. Iran's Foreign Minister also warned Iran will not remain an observer and that "tomorrow will be too late" if its crimes in Gaza continue. The Foreign minister later added it is possible an expansion of



war on other fronts is approaching the inevitable stage, and "time for political solutions is running out". Nonetheless, NYT had reported Iran has made no decision about whether to open a new front against Israel, but a meeting was held on Sunday night in a Hezbollah command centre in Lebanon.

## FIXED INCOME

### T-NOTE (Z3) FUTURES SETTLE 16+ TICKS LOWER AT 107-06+

**Treasuries bear-steepened Monday as weekend geopolitical hedges were unwound ahead of a busy week of Fed Speak.** 2s +4.7bps at 5.101%, 3s +5.7bps at 4.874%, 5s +7.5bps at 4.719%, 7s +8.2bps at 4.742%, 10s +8.3bps at 4.712%, 20s +9.4bps at 5.079%, 30s +8.7bps at 4.866%.

**INFLATION BREAKEVENS:** 5yr BEI +4.0bps at 2.408%, 10yr BEI +3.6bps at 2.375%, 30yr BEI +3.5bps at 2.432%.

**THE DAY:** Treasuries had been dipping lower since the globex reopen, led by the long end, in an unwind of weekend geopolitical hedges seen put on last Friday. T-Notes saw a small gap lower to 107-21 (vs Friday's 107-24 close) as futures reopened for the week and continued trundling lower through into the NY morning.

T-Notes saw a fleeting recovery as cash bonds opened up for trade, with a slightly smaller fall than expected in the Empire State mfg. survey failing to inspire trade in either direction. But before long, fresh lows were being made and T-Notes troughed at 107-04, the exact low from Thursday in the wake of the dismal 30yr auction.

**THIS WEEK'S AUCTIONS:** US to sell USD 13bln of 20yr bond on Oct 18th and USD 22bln of 5yr TIPS on Oct 19th; to settle on Oct 31st.

### STIRS:

- SR3Z3 -1.5bps at 94.545, H4 -3bps at 94.64, M4 -3bps at 94.84, U4 -4bps at 95.075, Z4 -5bps at 95.345, H5 -6.5bps at 95.595, M5 -7bps at 95.765, U5 -7bps at 95.855, Z5 -7.5bps at 95.89, Z6 -9.5bps at 95.90, Z7 -9bps at 95.785.
- SOFR flat at 5.31% as of Oct 13th, volumes fall to USD 1.383tln from 1.467tln.
- NY Fed RRP op demand falls to USD 1.109tln from 1.152tln, across 95 counterparties (prev. 98).
- EFFR flat at 5.33% as of Oct 13th, volumes fall to USD 99bln from 103bln.
- US sold USD 80bln 3-month bills at 5.340%, covered 3.16x; sold USD 72bln 6-month bills at 5.335%, covered 2.91x.

## CRUDE

### WTI (X3) SETTLES USD 1.03 LOWER AT 86.66/BBL; BRENT (X3) SETTLES USD 1.24 LOWER AT 89.65/BBL

**Oil prices were lower in choppy trade on Monday amid the overhang of geopolitical risk in the backdrop of touted unwinding of US sanctions on Venezuela.** WTI and Brent futures had initially run up to session highs of USD 88.33/bbl and 91.39/bbl in the NY morning, coming on the heels of Iran's Foreign Minister saying the possible expansion of the war on other fronts is approaching the inevitable stage, "time for political solutions is running out", he warned. But prices failed to extend from there and better selling developed. WTI and Brent hit session lows later in the NY morning of USD 86.32/bbl and 89.50/bbl after the Washington Post reported that US President Biden and Venezuela have reportedly agreed to ease US sanctions on the Venezuelan oil industry. But appetite to extend lower was just as limited as it was to chase it higher, with contracts rangebound from there on.

## EQUITIES

**CLOSES:** SPX +1.06% at 4,374, NDX +1.18% at 15,173, DJI +0.93% at 33,985, RUT +1.59% at 1,747

**SECTORS:** Consumer Discretionary +1.65%, Communication Services +1.47%, Utilities +1.05%, Industrials +1.05%, Real Estate +1.02%, Financials +1.02%, Technology +0.98%, Consumer Staples +0.98%, Materials +0.92%, Health +0.75%, Energy +0.66%.

**EUROPEAN CLOSES:** DAX +0.34% at 15,237.99, FTSE 100 +0.41% at 7,630.63, CAC 40 +0.27% at 7,022.19, Euro Stoxx 50 +0.34% at 4,150.35, IBEX 35 +0.59% at 9,287.10, FTSE MIB +0.55% at 28,391.60, SMI -0.13% at 10,886.30.



**STOCK SPECIFICS:** **Charles Schwab (SCHW)** posted a mixed report; EPS and deposits beat but missed on revenue, with total client assets and new assets coming in short. **Pfizer (PFE)** firmed despite seeing losses as much as 8% after-hours on Friday after it cut FY23 guidance with some noting the positive impact from cost cuts while other areas of the business are doing well. However, other vaccine names such as BioNTech (BNTX), Novavax (NVAX), Moderna (MRNA) saw notable weakness. On the latter, remains comfortable with its FY23 revenue guidance range with regards to COVID vaccine sales. **Apple (AAPL)** iPhone 15 sales -4.5% in the China debut Y/Y, according to Counterpoint. **Albemarle (ALB)** abandoned its USD 4.2bn takeover of Liontown Resources due to challenges posed by investor Gina Rinehart, who acquired a significant stake. **Vista Outdoor (VSTO)** will reportedly be selling sporting products unit to CSG for USD 1.91bn. Cuts FY adj. EPS and revenue view. **CVS Health's (CVS)** Aetna's 4+ Star plans will increase to 87% in 2024, from 21% in 2023, in the Centres for Medicare & Medicaid Services' 2024 Star Ratings, boosting future revenues. In other news, CFO is to take a leave of absence while the co. reaffirmed guidance. Sir Jim Ratcliffe is close to buying a 25% stake in **Manchester United (MANU)**, after Sheikh Jassim bin Hamad al Thani withdrew his bid to purchase the entire club for over GBP 5bn. **Lululemon Athletica (LULU)** is to replace **Activision Blizzard (ATVI)** in the S&P 500 at open on October 18th; follows **Microsoft (MSFT)** completing its acquisition of ATVI. Trian Fund Management has built a stake in **Allstate Corp (ALL)**, according to Reuters sources. On UAW talks, **General Motors (GM)** said all GM US UAW-represented team members will receive an immediate wage increase upon ratification of the proposed offer; offers gives all active seniority employees the opportunity to reach max wages by the end of contract. Meanwhile, the UAW said **Ford (F)** should "stop paying games and get a deal done". On the Abcam (**ABCM**)/**Danaher (DHR)** deal, the ISS recommended ABCM holders vote for the deal but Jonathan Milner, who holds 6.2% stake in ABCM, said holders should vote against it.

## US FX WRAP

### Dollar pares some of Friday's haven demand while cyclicals lead

**The Dollar** sold off on Monday paring the Friday jump with improved risk sentiment weighing on the buck with DXY trading between 106.18 and 106.61 with the rise in yields doing little to benefit the currency. In the US, the NY Fed Manufacturing survey remained in contractionary territory at -4.6 but was a bit better than expected. New orders slipped from positive to negative territory while employment did the opposite, prices paid were broadly unchanged and the six-month conditions eased slightly but remained positive. Fed's Goolsbee (2023 voter, dove) spoke to the FT and noted that progress was not stalling on getting inflation back to the 2% target and he also cautioned tying upcoming decisions to a narrow set of data. There are plenty more Fed speakers this week in the final week before the blackout period ahead of the November FOMC meeting where it is all but certain the Fed will keep rates unchanged with money markets implying a less than 10% chance of a hike.

**The Euro** was buoyed by the weaker Dollar seeing EUR/USD briefly rise above 1.0550. On ECB speak, Wunsch (hawk) noted discussing PEPP is not a pressing issue and is fine with it being discussed in October or a bit later, but when asked if they are at terminal, said "maybe, maybe not", adding the chances of hiking after pausing are far from marginal. Meanwhile, with the ongoing Israeli conflict and the impact it is having on the USD's safe-haven status, Rabobank writes this supports their 3-month target of EUR/USD reaching 1.02. The desk had already been predicting the Dollar would remain well supported into next year due to slow growth in China and potential Eurozone and US recessions. Note, heading into the APAC session EUR/USD was pushed to fresh highs, aided by some hawkish commentary from ECB Chief Economist Lane noting they have to be prepared to do more if needed and pushing back on calls for rate cuts any time soon, albeit he said the current interest rate of 4% will do a great deal to bring inflation back down, especially as there's still more tightening in the pipeline.

**The Yuan** was flat on Monday vs the weaker dollar after the PBoC conducted CNY 789bn in 1yr MLF with the rates kept unchanged at 2.5%. The CNY 789bn injection was the largest since December 2020 and above the CNY 590bn expected. Meanwhile, the PBoC set the USD/CNY mid-point at 7.1798 (exp. 7.3121, prev. 7.1775).

**The Yen** was also flat vs the Dollar on Monday as it battled higher UST rates and haven demand for the traditional haven currency in times of heightened geopolitical tensions. Note, the Japanese top currency diplomat Kanda said that interest rates are merely one factor in FX, noting intervention is one option when excessive FX moves are seen. Kanda added the Yen is still perceived as a safe asset, alongside the CHF and USD. Other havens, like the Swissy, saw gains vs the Dollar but not the Euro while gold prices were hit on higher yields and Israel hedge unwinds.

**Cyclicals** benefitted from the risk rally and Dollar weakness with the Antipodes outperforming ahead of the RBA minutes and New Zealand CPI with AUD/USD bouncing from lows of 0.6300 and NZD/USD from lows of 0.5900. In New Zealand the election over the weekend saw the centre-right National Party, led by Christophe Luxon, form a new government with ACT, after PM Hipkins conceded his Labour Party could not form a government after the election. GBP also saw gains



on risk appetite while BoE's Pill stated there is still work to do to get back to the 2% inflation target, noting we must not declare premature victory after a mechanical fall in headline inflation, saying we cannot be complacent if we look at labour market inflation expectations. Pill added that not all wage indicators are currently pointing the same way and average weekly earnings data is increasingly looking like an outlier. On policy lags, Pill believes more of the BoE rate rise has been transmitted than 20-25%, but not dramatically so. CAD saw gains vs the buck but was a relative laggard vs its cyclical counterparties with oil pricing giving back some of the surge seen on Friday as participants unwound some of their geopolitical hedges from Friday. The latest BoC Business Outlook Survey for Q3 saw little reaction in CAD, nonetheless, RBC summarised, "[it] reported firms on balance were expecting lower sales growth alongside slower investment and hiring activities, but pricing setting behaviour has yet to 'normalize'."

**EMFX** was mixed. BRL and MXN saw gains vs the Dollar, while CLP and COP took a hit with CLP at the lowest level seen this year despite strength in copper on Monday while COP fell in sympathy with oil prices. Elsewhere, the CZK was flat vs the Euro after PPI came in cooler than expected, while in Poland, the PLN saw notable gains (along with other Polish assets) after the election saw the EU-aligned opposition claim victory, raising the probability of returned EU funds. Meanwhile, the Finance Ministry noted that Poland had the equivalent of EUR 6.5bln on its FX accounts at the end of September while net inflation also eased by more than expected to 8.4% from 10.% (exp. 8.6%). Note, in India, traders suggested the RBI is likely selling Dollars to keep the Rupee off a record low and the latest inflation data was much cooler than expected. ZAR saw notable gains despite weaker gold prices. South African President Ramaphosa sounded rather optimistic noting the country has turned a corner in its energy crisis, stating the levels and frequency of loadshedding are expected to improve in Q4.

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